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COUNTY OF LASSEN

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

Mgt. Ltr.
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COUNTY OF LASSEN

Management Report
For the Year Ended June 30, 2008

Table of Contents

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lassen County Board of Supervisors
Susanville, California

In planning and performing our audit of the financial statements of the County of Lassen as of and for the year ended June 30, 2008, we considered the County of Lassen's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Lassen's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Lassen's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

The memorandum that accompanies this letter summarizes the status of prior year comments and suggestions. We previously reported on the County's internal control in our report dated December 31, 2008, which contains our report on significant deficiencies and material weaknesses in the County's internal control. This letter does not affect our report dated December 31, 2008, on the basic financial statements of the County of Lassen.

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Lassen County Board of Supervisors
Susanville, California

This communication is intended solely for the information and use of management, the Board of Supervisors, and federal and state grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Gallina LLP

Roseville, California
December 31, 2008

COUNTY OF LASSEN

Management Report
Required Communication
For the Year Ended June 30, 2008

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 5, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 5, 2008.

COUNTY OF LASSEN

Management Report
Required Communication
For the Year Ended June 30, 2008

Qualitative Aspects of Accounting Practices

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences
- Capital asset lives and depreciation expense
- Liability for self-insurance claims

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

The following material misstatements detected as a result of audit procedures were corrected by management:

- Reduce general ledger cash balance by outgoing payroll electronic fund transfers which posted to the bank on 6/30/08 but were not reflected in the general ledger until July.
- Record the balance in the Welfare EBT account previously unrecorded on the general ledger.
- Adjust capital asset depreciation for proprietary funds.

Corrected and Uncorrected Misstatements (continued)

For additional information regarding the significant deficiencies in the internal controls over financial reporting, refer to our report on the County's internal control dated December 31, 2008.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letters dated December 30, 2008 and February 17, 2009. The latter letter was prepared for the purpose of confirming representations relating to the OMB A-133 compliance audit only.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

COUNTY OF LASSEN

Management Report
Current Year Recommendations
For the Year Ended June 30, 2008

AUDITOR-CONTROLLER

ACCOUNTING FOR GOVERNMENTAL TRUST FUNDS

Criteria

The County adopted the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2002. GASB 34 states that assets held for the government should no longer be reported in fiduciary funds, but rather in governmental or proprietary funds, as appropriate.

Condition

The County has identified the fiduciary funds that need to be reclassified as governmental funds under GASB 34. However, the County waited until year-end to summarize the cash balances and activity of these funds using an electronic spreadsheet. Although the County had closed several funds and had reclassified them to governmental funds, there were still fourteen trust funds that needed to be reclassified to governmental funds at year-end.

Effect of Condition

By not recording the activity of these governmental trust funds throughout the year, the County's records do not accurately reflect all revenues and expenditures. The electronic spreadsheets prepared at year end are time consuming and are subject to error. In addition, because the County does not budget for any activity occurring in these agency funds, it is not able to properly address any significant deviations from the adopted budget.

Recommendation

We recommend that the County continue to integrate the activity of these funds into operating funds of the County to better reflect the revenue and expenditure activity throughout the year. In addition, by integrating these funds into operating funds, the County will ensure that all activity is properly budgeted for. If the County wishes to establish separate funds rather than blending the activity into existing funds, it may do so. The benefit of reporting the activity in an operating fund instead of a fiduciary fund is that revenues and expenditures can be associated with a department and a function.

Management Response

As of June 30, 2008 fourteen (14) governmental trust funds remain active; down from thirty-nine (39) the previous year. Efforts will continue to eliminate as many governmental trust funds as possible. In the interim, the only allowable uses of governmental trust funds are transfers to operating funds where expenditures must be budgeted. Revenue will continue to be reclassified at year end for reporting purposes.

AUDITOR-CONTROLLER (continued)

CONTROLS OVER CREDIT CARDS

Criteria

The County's written credit card and travel policies require that travel be authorized in writing by the department head and that the use of County credit cards be limited to travel expenses. Best practices in internal control generally require that individual receipts be presented for all credit card charges.

Condition

During our testing of credit card transactions, we noted four payments of credit card statements relating to travel expenditures that did not appear to be supported by a written department head authorization on the County's standard travel reimbursement form. In two cases, we also found that individual receipts for some credit card charges had not been included in the file. In one instance, we noted that non-travel items had been purchased on a County credit card. The amounts involved were immaterial to the financial statements.

Effect of Condition

When the County's written policies are not followed, the risk is heightened that the County could pay for unauthorized and/or inappropriate purchases.

Recommendation

We recommend that the County strengthen enforcement of its policies and consider returning charges without sufficient documentation to the Departments for correction.

Management Response

Efforts will be made to strengthen enforcement of the credit card policy. Efforts will focus on additional training for departments on credit card and travel policies plus closer scrutiny of claims.

AUDITOR-CONTROLLER (continued)

CAPITAL ASSET CERTIFICATIONS

Criteria

A certification of capital assets should be performed on an annual basis to ensure that the capital asset records are accurate and the County is in compliance with California Government Code.

Condition

The County did not perform a certification of its capital assets this year.

Effect of Condition

Because the County does not perform a certification of capital asset items annually, there is a risk that items may have been improperly added or deleted. In addition, California Government Code §24051 requires counties to perform annual certifications of capital assets. By not performing a certification of capital assets, the County is out of compliance with the Government Code.

Recommendation

We recommend that the County establish a policy for performing an annual certification of its assets. The results of the certification should then be compared to the items carried on the detailed subsidiary records of property and equipment, and significant differences should be investigated. A certification will help detect the misclassification or loss of capital asset items.

Management Response

In fiscal year 2007/08 the Auditor's Office completed the implementation of a capital asset system. We will now develop and implement a capital asset certifications policy. Capital asset certifications will be distributed to all departments and the results will be compared to the capital asset system. Certification procedures will be complete before June 30, 2009.

Status of Prior Year Management Comments
For the Year Ended June 30, 2008

Recommendation	Status
AUDITOR-CONTROLLER Accounting for Governmental Trust Funds We recommend that the County continue to integrate the activity of these funds into operating funds of the County to better reflect the revenue and expenditure activity throughout the year. In addition, by integrating these funds into operating funds, the County will ensure that all activity is properly budgeted for. If the County wishes to establish separate funds rather than blending the activity into existing funds, it may do so. The benefit of reporting the activity in an operating fund instead of a fiduciary fund is that revenues and expenditures can be associated with a department and a function.	Partially Implemented